

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: District Court Funds of District No. 28, City of Southgate, MI	County Wayne
Audit Date June 30, 2004	Opinion Date September 3, 2004	Date Accountant Report Submitted To State: December 17, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature 			

**District Court Funds of
District No. 28
City of Southgate, Michigan**

**Financial Report
with Supplemental Information
June 30, 2004**

District Court Funds of District No. 28

City of Southgate, Michigan

Contents

Report Letter	1-2
Basic Financial Statements	
Statement of Net Assets	3
Statement of Activities	4
Fiduciary Fund - Statement of Assets and Liabilities	5
Notes to Financial Statements	6-11
Other Supplemental Information	
Schedule of Cash Receipts and Disbursements - General and Bond Accounts	12



Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Independent Auditor's Report

To the Honorable James A. Kandrevas,
District Judge of the 28th District
City of Southgate, Michigan

We have audited the accompanying financial statements of the governmental activity, the discretely presented component unit, and the fiduciary fund of the 28th District Court of the City of Southgate, Michigan (the "District Court") as of and for the year ended June 30, 2004, which collectively comprise the District Court's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 28th District Court, City of Southgate, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activity, the discretely presented component unit, and the fiduciary fund of the 28th District Court of the City of Southgate, Michigan as of June 30, 2004 and the respective changes in financial position, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

A member of



A worldwide association of independent accounting firms

To the Honorable James A. Kandrevas,
District Judge of the 28th District
City of Southgate, Michigan

As described in Note I, the District Court has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34. As a result, these financial statements present entirely new financial information.

Plante & Moran, PLLC

September 3, 2004

District Court Funds of District No. 28

City of Southgate, Michigan

Statement of Net Assets June 30, 2004

	Primary Government - Governmental Activities General Account	Component Unit Work Program
Assets		
Cash and cash equivalents (Note 2)	\$ 271,387	\$ 84,324
Due from primary government	-	34,721
Capital assets (Note 5)	-	26,706
Total assets	<u><u>\$ 271,387</u></u>	<u><u>\$ 145,751</u></u>
Liabilities		
Due to City of Southgate	\$ 150,881	\$ -
Due to State of Michigan	37,010	-
Due to Wayne County	3,754	-
Due to Secretary of State	2,085	-
Due to Work Program	34,721	-
Trust account and other	30,909	-
District Court Capital Improvement Fund	12,027	-
Total liabilities	271,387	-
Net Assets		
Invested in capital assets	-	26,706
Unrestricted	-	119,045
Total net assets	-	145,751
Total liabilities and net assets	<u><u>\$ 271,387</u></u>	<u><u>\$ 145,751</u></u>

Note to Reader: The statement of net assets is prepared under the full accrual method. For the governmental activities, there are no reconciling items between this method of accounting and the fund-based balance sheet, which is to be presented under the modified accrual method. Therefore, separate presentation of the fund-based balance sheet is excluded from the basic financial statements.

District Court Funds of District No. 28

City of Southgate, Michigan

Statement of Activities Year Ended June 30, 2004

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Component Unit
Functions/Programs						
Primary government -						
Governmental activities -						
Court activities	\$ 32,473	\$ -	\$ -	\$ -	\$ (32,473)	\$ -
Component unit -						
Work Program	\$ 362,980	\$ 385,159	\$ 28,783	\$ -	-	50,962
General Revenues - Fines and forfeitures					32,473	-
Change in Net Assets					-	50,962
Net Assets - Beginning of year					-	94,789
Net Assets - End of year					\$ -	\$ 145,751

Note to Reader: The statement of activities is prepared under the full accrual method. There are no reconciling items between this method of accounting and the fund-based statement of changes in fund balance, which is to be presented under the modified accrual method. Therefore, presentation of the fund-based statement of changes in fund balance is excluded from the basic financial statements.

District Court Funds of District No. 28

City of Southgate, Michigan

Fiduciary Fund Statement of Assets and Liabilities June 30, 2004

	Agency Fund - Bond Account
	<hr/>
Assets - Cash and cash equivalents	\$ 449,741
Liabilities	
Deposits	\$ 443,054
Trust account and other	<hr/> 6,687
Total liabilities	\$ 449,741

District Court Funds of District No. 28

City of Southgate, Michigan

Notes to Financial Statements
June 30, 2004

Note I - Significant Accounting Policies

The accounting policies of the 28th District Court (the “District Court”) conform to accounting principles generally accepted in the United States of America applicable to governmental units. The following is a summary of significant accounting policies:

Reporting Entity

The District Court is governed by one elected judge. The District Court’s district control unit is the City of Southgate, Michigan (the “City”). As required by accounting principles generally accepted in the United States of America, these financial statements present the District Court and its component unit. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. The Work Program is a component unit (not-for-profit organization) and is included in the District Court’s reporting entity because of the significance of its operational or financial relationships with the District Court. The Work Program has a separate federal identification number and is used to account for fees paid by defendants and the expenses related to community services performed by and provided to defendants. The Work Program is governed by the judge. The District Court is responsible for traffic and moving violations, certain civil matters, and misdemeanors within the City’s limits.

Fund Accounting

The accounts of the District Court and its component unit are organized on the basis of funds, each of which is considered a separate accounting entity. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories as follows:

Governmental Fund - The financial activities of the General Account are generally limited to the collection of amounts that are subsequently returned or paid to third parties. However, the General Account is also responsible for the payment of various operating expenses of the District Court and is, therefore, classified as a governmental fund.

Fiduciary Fund - The Bond Account of the 28th District Court is an Agency Fund. The financial activities of the fund are limited to collections of amounts that are subsequently returned or paid to third parties. The fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

District Court Funds of District No. 28

City of Southgate, Michigan

Notes to Financial Statements
June 30, 2004

Note I - Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The District Court's financial statements consist of a statement of net assets and a statement of activities for the General Account and the component unit, the Work Program. The financial statements also contain a fiduciary fund financial statement for the Bond Account.

The statement of net assets and statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The statement of net assets includes and recognizes all long-term assets as well as long-term debt and obligations, if any. There were no long-term obligations at June 30, 2004. The District Court's net assets are reported in two parts, invested in capital assets and unrestricted net assets.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

The Bond Account is reported using the current financial resources measurement focus and the modified accrual basis of accounting.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in the government-wide statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The District Court has elected not to follow private sector standards issued after November 30, 1989 for its activities.

Assets, Liabilities, and Net Assets

Capital Assets - Capital assets are defined by the District Court as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market values at the date of donation.

At June 30, 2004, capital assets consist strictly of vehicles for the component unit. Vehicles are depreciated using the straight-line method over a five- or 10-year life.

District Court Funds of District No. 28

City of Southgate, Michigan

Notes to Financial Statements
June 30, 2004

Note I - Significant Accounting Policies (Continued)

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are recorded at fair value, based on quoted market prices.

Change in Accounting Method

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This statement is effective for the fiscal year ended June 30, 2004 and has significantly changed the District Court's financial statements by including full accrual accounting for all of the District Court's activities. These and other changes are reflected in the accompanying financial statements (including notes to the financial statements). Certain significant changes in the financial statements include the following:

- Financial statements prepared using full accrual accounting for all of the District Court activities
- Capital assets reported in the statement of net assets would have previously been reported in the General Fixed Assets Account Group.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Stewardship, Compliance, and Accountability

The District Court's annual budget was prepared by the City and included as a department of the City of Southgate. During the year, the District Court paid certain expenditures directly rather than having the payments processed through the City's disbursement system. The District Court did not adopt a separate budget for the expenditures that it paid directly.

District Court Funds of District No. 28

City of Southgate, Michigan

Notes to Financial Statements
June 30, 2004

Note 2 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The District Court is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and bank investment pools and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The District Court has designated one bank for the deposit of District Court funds. The investment policy adopted by the District Court in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, mutual funds, bank investment pools, and bank accounts and CDs, but not the remainder of State statutory authority as listed above.

The District Court's deposits and investment policy are in accordance with statutory authority.

The District Court's cash and cash equivalents at June 30, 2004 are comprised of the following:

	Governmental	Fiduciary	Total Primary	Component
	Activities	Fund	Government	Unit
Bank deposits	\$ 136,887	\$ -	\$ 136,887	\$ 84,324
Petty cash	500	-	500	-
Bank investment pools	134,000	449,741	583,741	-
Total	<u>\$ 271,387</u>	<u>\$ 449,741</u>	<u>\$ 721,128</u>	<u>\$ 84,324</u>

District Court Funds of District No. 28

City of Southgate, Michigan

Notes to Financial Statements
June 30, 2004

Note 2 - Deposits and Investments (Continued)

Deposits

The bank deposits of the primary government were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$127,654. Of that amount, approximately \$100,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The bank deposits of the component unit were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$84,985 and the entire amount was covered by federal depository insurance. The District Court believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the District Court evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

The District Court's investments during the year consisted solely of bank investment pools. Investments are normally categorized to give an indication of the level of risk assumed by the District Court; however, bank investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. The District Court believes that the investments in these pools comply with the investment authority noted above.

The bank investment pools are regulated by the Michigan Banking Act, and the fair value of the position in the pool is the same as the value of the pool shares.

Note 3 - Court Operations

The majority of the costs relating to the operation of the District Court are budgeted items of the City of Southgate, Michigan's General Fund and, accordingly, such costs are paid by the City's General Fund. The District Court did incur operating expenses of \$32,473 in the General Account.

District Court Funds of District No. 28

City of Southgate, Michigan

Notes to Financial Statements June 30, 2004

Note 4 - Risk Management

The District Court is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The District Court, through the City, has purchased commercial insurance for medical benefit claims; the District Court is uninsured for general liability, property loss, and workers' compensation claims. The District Court participates with the City of Southgate, Michigan in the Michigan Municipal Risk Management Authority risk pool. The City estimates related liabilities at year end. The District Court's liability at June 30, 2004 is immaterial. Settled claims related to the commercial insurance have not exceeded the amount of insurance coverage in any of the past four fiscal years.

Note 5 - Capital Assets

Capital asset activity of the Court's component unit was as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Capital assets being depreciated - Vehicles	\$ 70,426	\$ -	\$ -	\$ 70,426
Less accumulated depreciation	(35,411)	(8,309)	-	(43,720)
Net capital assets	<u>\$ 35,015</u>	<u>\$ (8,309)</u>	<u>\$ -</u>	<u>\$ 26,706</u>

Depreciation expense was \$8,309 for the year ended June 30, 2004.

Other Supplemental Information

District Court Funds of District No. 28

City of Southgate, Michigan

Schedule of Cash Receipts and Disbursements General and Bond Accounts Year Ended June 30, 2004

	General Account	Bond Account	Total
Cash and Cash Equivalents - July 1, 2003	\$ 179,771	\$ 462,921	\$ 642,692
Receipts			
Fines and fees collected	2,602,566	-	2,602,566
Receipts	-	947,757	947,757
Trust accounts and restitution	60,854	-	60,854
Total receipts	2,663,420	947,757	3,611,177
Disbursements			
Transfers:			
City of Southgate	1,535,034	-	1,535,034
State of Michigan	342,989	-	342,989
Capital Improvement Fund	118,187	-	118,187
Wayne County	32,719	-	32,719
Judges' retirement system	5,824	-	5,824
Driver's license reinstatement fees	20,670	-	20,670
Transfer to Work Program	386,204	-	386,204
Bond refunds and forfeitures	-	958,928	958,928
Operating expense	32,473	-	32,473
Bank fees	7,177	2,009	9,186
Trust accounts, restitution, and other	90,527	-	90,527
Total disbursements	2,571,804	960,937	3,532,741
Cash and Cash Equivalents - June 30, 2004	\$ 271,387	\$ 449,741	\$ 721,128

September 24, 2004

James A. Kandrevas
District Court Judge
28th Judicial District Court
14720 Reaume Parkway
Southgate, MI 48195

Dear Judge Kandrevas:

We recently completed the audit of the financial statements of the 28th Judicial District Court for the year ended June 30, 2004. In addition to the audit report, we offer the following comments for your consideration.

The financial statements have been prepared in accordance with a new accounting pronouncement, Governmental Accounting Standards Board No. 34. The new format incorporates fixed assets (vehicles) and presents the annual activity in a revised format.

During our review of the cash receipt and disbursement activity between the Court's General, Bond, and Work Program accounts we noted several months with miscellaneous differences between the amounts disbursed by the general account and the amounts received into the bond and the work program accounts. Upon further review we were informed that the differences were due to cash register keying errors at the time of payment receipt. We were unable to completely reconcile the differences noted during our audit and suggest having the Court reconcile the inter-fund activity on a monthly basis.

During our review of the Work Program's payroll procedures we noted that the Court does not maintain records to support the pay rates of the employees. We suggest maintaining employee files for all employees which should include documentation to support their pay-rate.

In the current year the Court paid for \$32,473 of operating expenses from fines and forfeitures. It is our understanding that prior to July 2004, the local share of Court revenue was to be remitted directly to the City of Southgate and that all Court expenses were to be paid by the City through their budgeted accounts. It is our understanding that the Court is now going to directly pay their expenses. As such, we suggest implementing a vendor payment approval process and also suggest adopting a formal budget for the various expense accounts, as required by the State.

We would like to express our thanks and appreciation for the courtesy and cooperation extended to us by the Court's staff during the audit. We appreciate the opportunity to present these recommendations for your consideration and will be pleased to discuss them further at your convenience.

Yours truly,

PLANTE & MORAN, PLLC

A handwritten signature in cursive script, reading "Beth A. Bialy".

Beth A. Bialy

A handwritten signature in cursive script, reading "Bill Brickey".

William E. Brickey